



Effect of the FCC's NPRM on Universal Service in Kansas

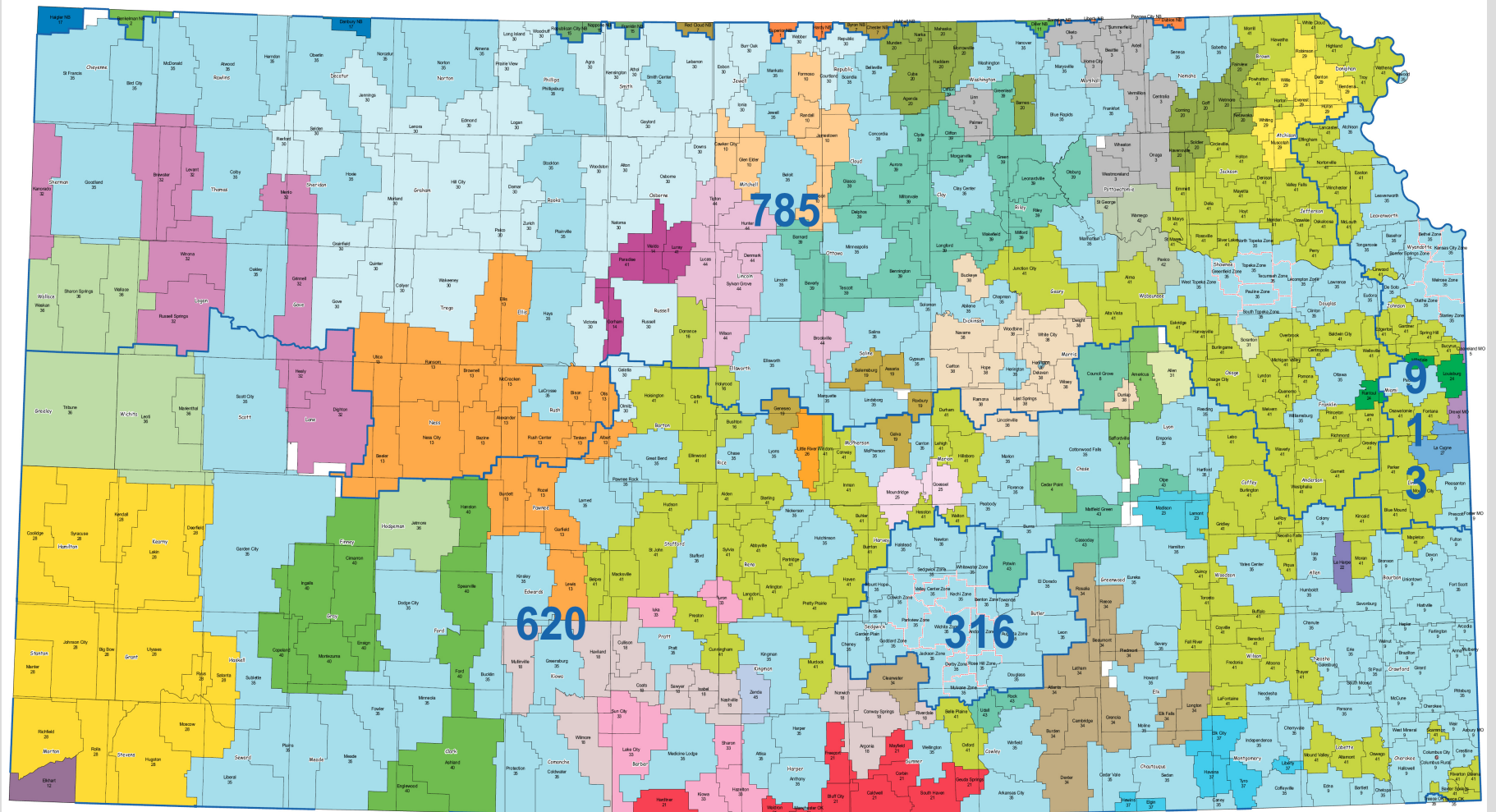
March 22, 2011



Kansas Rural ILECs:

- 35 small businesses that cover a significant, low customer density rural geographic area of the state.
- Provide, or are deploying, state-of-the-art networks that support basic and broadband services.
- Provide networks that link Schools, Libraries, Rural Healthcare, and other Anchor Institutions.
- Provide many rural jobs and are the anchor institution in rural communities.
- Are RoR regulated and are subject to earnings reviews by the KCC.

Rural ILECs in Kansas





**See next slide for Legend*





















March 22, 2011

Legend for Kansas Map

Boundary Type

-  Area Code
-  Zone
-  Exchange

Company Name

-  ALLIANT TELEPHONE COMPANY OF NB.
-  BENKELMAN TELEPHONE COMPANY INC.
-  BLUE VALLEY TELE-COMMUNICATIONS, INC.
-  BLUESTEM TELEPHONE COMPANY, INC.
-  CASS COUNTY TELEPHONE COMPANY
-  COLUMBUS TELEPHONE CO. INC.
-  CONTIENTAL TELEPHONE COMPANY OF NB.
-  COUNCIL GROVE TELEPHONE COMPANY
-  CRAW-KAN TELEPHONE COOPERATIVE, INC.
-  CUNNINGHAM TELEPHONE COMPANY, INC.
-  DILLER TLEPHONE COMPANY OF NB.
-  ELKHART TELEPHONE COMPANY, INC.
-  GOLDEN BELT TELEPHONE ASSOCIATION
-  GORHAM TELEPHONE COMPANY
-  GTE NORTH NB
-  H&B COMMUNICATIONS, INC.
-  HARTMAN TELEPHONE COMPANY OF NB.
-  HAVILAND TELEPHONE COMPANY, INC.
-  HOME TELEPHONE COMPANY, INC.
-  J.B.N. TELEPHONE COMPANY, INC.
-  KAN-OKLA TELEPHONE ASSN., INC.
-  LAHARPE TELEPHONE COMPANY, INC.

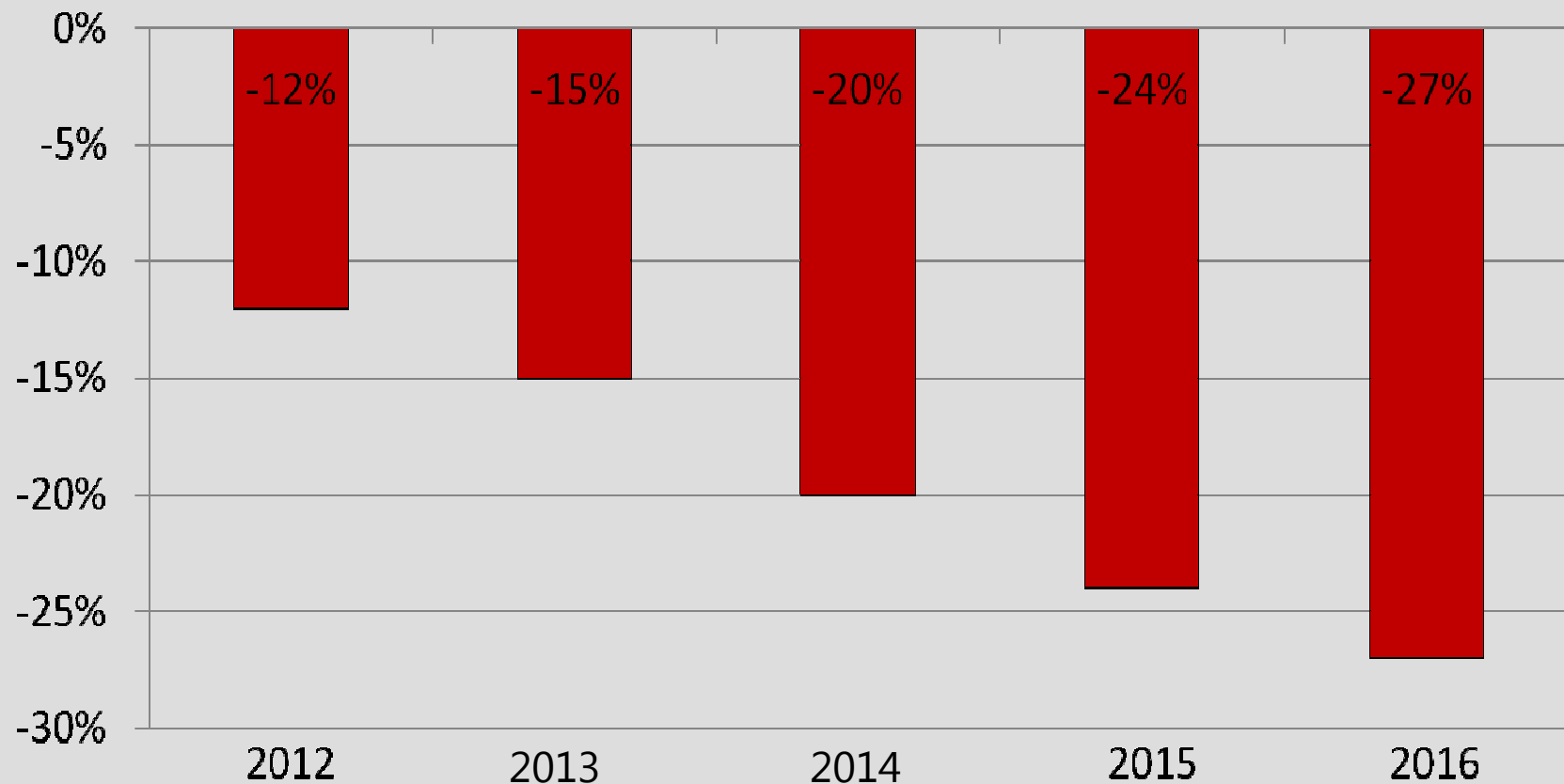
-  MADISON TELEPHONE LLC
-  MO-KAN DIAL, INC.
-  MOUNDRIDGE TELEPHONE COMPANY
-  MUTUAL TELEPHONE COMPANY
-  PEOPLES TELECOMMUNICATIONS, LLC
-  PIONEER TELEPHONE ASSN., INC
-  RAINBOW TELECOMMUNICATIONS ASSOCIATION, INC.
-  RURAL TELEPHONE SERVICE COMPANY, INC.
-  S&A TELEPHONE COMPANY, INC.
-  S&T TELEPHONE COOPERATIVE ASSOCIATION, INC.
-  SOUTH CENTRAL TELEPHONE ASSN. INC.
-  SOUTHERN KANSAS TELEPHONE COMPANY, INC.
-  SOUTHWESTERN BELL TELEPHONE CO.
-  SUNFLOWER TELEPHONE COMPANY, INC.
-  TOTAH COMMUNICATIONS, INC.
-  TRI-COUNTY TELEPHONE ASSOCIATION, INC.
-  TWIN VALLEY TELEPHONE, INC.
-  UNITED TELEPHONE ASSN. INC.
-  UNITED TELEPHONE CO. OF KANSAS
-  WAMEGO TELECOMMUNICATIONS COMPANY, INC.
-  WHEAT STATE TELEPHONE COMPANY, INC.
-  WILSON TELEPHONE COMPANY, INC.
-  ZENDA TELEPHONE COMPANY, INC.
-  NO SERVICE



The FCC's NPRM:

- Proposes significant near term changes to Universal Service Mechanisms that will cause major revenue reductions starting in 2012.
- Negatively impacts Rural ILECs ability to provide Universal Broadband and Telecom Services.
- Rural ILECs have borrowed significant sums to invest in the broadband network of tomorrow – the proposed changes put broadband networks and loan obligations at risk.
- Endangers small business, jobs and rural economies.

Estimated Percentage Change in Universal Service Funding for Kansas Rural ILECs



Specific Analysis of FCC NPRM Proposals

Line	Description	Source	2010	2011	2012	2013	2014
REGULATED REVENUES							
Revenues - USF Support:							
LN1	NECA-ICLS	3 year forecast	\$1,216,486	\$1,242,252	\$1,276,004	\$1,324,219	\$1,391,234
LN2	NECA-LSS	3 year forecast	\$325,325	\$336,005	\$317,951	\$302,315	\$288,761
LN3	USF SNA	From USAC Appendix 1	\$71,405	\$69,625	\$47,760	\$47,760	\$18,720
LN4	USF HCL	3yr forecast and USAC Appedix 1	\$781,571	\$726,056	\$631,368	\$615,102	\$587,420
LN5	SUBTOTAL -USF	=(Sum LN1 thru LN4)	\$2,394,787	\$2,373,938	\$2,273,082	\$2,289,396	\$2,286,136
LN6	1.3 Loops		3,029	2,888	2,753	2,626	2,506
LN7	Annual USF Support per Line	=(LN5 / LN6)	\$791	\$822	\$826	\$872	\$912
LN7a	Monthly USF Support per Line	=(LN7 / 12)	\$66	\$69	\$69	\$73	\$76
Other Regulated Revenues:							
LN8	Other Interstate Revenues (ie. NECA settlements, Interstate Access, etc.)	Interstate Less ICLS and LSS	\$2,150,619	\$1,988,736	\$1,988,159	\$2,000,812	\$2,028,110
LN9	Other Revenue (ie Local, Intrastate Access, etc)	Total Reg Revenue Less Above	\$2,076,041	\$2,076,041	\$2,076,041	\$2,076,041	\$2,076,041
LN10	SUBTOTAL - All other Reg. Revenues:	=(Sum LN8 + LN9)	\$4,226,726	\$4,064,846	\$4,064,269	\$4,076,926	\$4,104,227
LN 11	TOTAL REGULATED REVENUES	=(LN7 + LN10)	\$6,621,514	\$6,438,784	\$6,337,352	\$6,366,322	\$6,390,363
Regulated Operating Expense, Interest, Other:							
LN12	Op. Expense	From Forecast	\$5,703,379	\$5,790,086	\$5,776,580	\$5,820,671	\$5,862,406
LN13	Interest	From Forecast	\$496,309	\$500,335	\$548,677	\$542,240	\$509,501
LN14	Other	All Other Income Stmt Items	\$10,657	\$2,329	\$12,364	\$6,506	\$3,423
LN15	TOTAL OPERATING EXPENSE, INTEREST, ETC	=(Sum LN12 + LN14)	\$6,210,345	\$6,292,750	\$6,337,621	\$6,369,417	\$6,375,331
LN16	Net Income Before Tax	=(LN11 - LN15)	\$411,169	\$146,034	(\$269)	(\$3,095)	\$15,033
LN 17	Net Investment	3 Year Forecast	\$11,068,044	\$11,334,560	\$11,487,021	\$12,014,263	\$13,079,552
LN 18	ROR	=(LN16 / LN17)	3.71%	1.29%	0.00%	-0.03%	0.11%
LN 18a	HCL Cap Revenue Effect	From Forecast			(\$80,213)	(\$218,469)	(\$360,362)
LN 19	TIER	=((LN13+LN16)/LN13)	1.8285	1.2919	0.9995	0.9943	1.0295
NPRM Impacts					2012	2013	2014
LN 20	High Cost Loop Fund				(\$20,097)	(\$27,373)	(\$20,766)
LN 21	Safety Net Additive				(\$22,635)	(\$41,717)	(\$36,508)
LN 22	LSS				(\$119,340)	(\$242,296)	(\$361,636)
LN 23	ICLS				(\$55,710)	(\$113,108)	(\$168,818)
LN 24	\$3000/Ln Support Limitation	= Compare to Line 7			(\$64,888)	(\$45,169)	(\$20,611)
LN 25	Total Support Reduction	=(Sum LN20 thru LN24)			(\$282,669)	(\$469,664)	(\$608,340)
LN 25A	Total Monthly Support Reduction Per Line	=(Line 25 / Line 6 / 12)			(\$9)	(\$15)	(\$20)
LN 26	Estimated USF Support to be received if current NPRM is implemented:				\$1,990,413	\$1,819,732	\$1,677,796
LN 27	Modified Net Income	=(LN16 + LN25)			(\$282,938)	(\$472,759)	(\$593,307)
LN 28	Modified ROR	=(LN28 / LN 17)			-2.46%	-3.93%	-4.54%
LN 29	Modified TIER	=((LN13+LN27)/LN13)			0.4843	0.1281	-0.1645



A Strong National Broadband Plan Should:

Meet the Objectives of Universal Service

- Provide high quality basic and broadband service to consumers in Rural ILEC study areas at rates that are comparable to those in urban areas.

Recognize Critical Rural Carrier of Last Resort Responsibilities

Provide Predictable and Sufficient Funding

- Receive sufficient support funding to allow the recovery and operation of existing network costs plus committed ARRA deployment – enables ILEC to pay existing loans.

Incent future rural broadband investment

- For future network costs - Receive funding sufficient to enable efficient build out of broadband service.

The FCC Should Adopt A Mechanism Like The Rural Association CAF Proposal:

$$\begin{aligned} & \text{Broadband last mile loop costs (including additional costs} \\ & \quad \text{resulting from Broadband Allocation Factor)} \\ & \quad + \\ & \text{Second Mile, Middle Mile, and related Internet backbone} \\ & \quad \text{connection costs} \\ & \quad \div \\ & \quad \text{Broadband lines} \\ & \quad = \\ & \quad \underline{\text{Rural Broadband Costs Per Line}} \\ & \quad - \\ & \quad \text{Urban Benchmark} \\ & \quad \times \\ & \quad \text{Subscribed Broadband Lines} \\ & \quad = \\ & \text{Rural ILEC costs eligible for recovery via CAF support} \end{aligned}$$



This Proposal Incorporates Efficiencies and Accountability

- A cap on corporate operations expense;
- Potential controls on prospective capital investment levels;
- A formula for funding middle mile transmission capacity based on customer demand, ensuring the ability to deliver on promised speeds;
- Existing cost accounting, verification, and audit procedures remain in place; including RoR earnings reviews in Kansas.
- Existing PoLR obligations remain in place.



The Association Proposal Provides A Specific Broadband Support Mechanism for Rural ILECs That:

- Incorporates effective incentives for deployment, network maintenance, upgrades and adoption;
- Includes reasonable funding constraints;
- Promotes predictability, sufficiency, efficiency & accountability;
- Recognizes critical Provider of Last Resort (PoLR) responsibilities;
- Is consistent with existing statute and legal framework;
- Does not unduly burden consumers;
- Avoids disruption to existing customers;
- Is ready to begin implementation by 1/1/2012.